

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6873

BILL NUMBER: HB 1536

NOTE PREPARED: Jan 11, 2015

BILL AMENDED:

SUBJECT: Sales Tax Holiday.

FIRST AUTHOR: Rep. Steuerwald

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides a Sales and Use Tax exemption each year beginning on the second Friday of August 2015 and August 2016 through the following Sundays (Sales Tax holiday) for the following items:

1. Clothing, if the sales price does not exceed \$100.
2. A school supply, school art supply, or school instructional material, if the sales price does not exceed \$15.

The bill incorporates the definitions of these items as set forth in the May 24, 2012, Streamlined Sales and Use Tax Agreement.

Effective Date: Upon passage.

Explanation of State Expenditures: This bill would increase the administrative costs of the Department of State Revenue (DOR). The DOR may need to update Sales Tax forms and computer software to allow for the Sales Tax holiday. It is estimated that the provisions of this bill can be implemented within the DOR's existing level of resources.

Explanation of State Revenues: *Summary* - The bill could reduce Sales Tax revenue by an estimated \$10.6 M in FY 2016 and \$11.1 M in FY 2017. Revenue loss due to a Sales Tax holiday for clothing and school supplies would depend on the volume of planned purchases that are shifted into the three days in August because of the temporary Sales Tax exemption.

Sales Tax revenue is deposited in the state General Fund (98.848%), Motor Vehicle Highway Account (1%),

Commuter Rail Service Fund (0.123%), and Industrial Rail Service Fund (0.029%). The table below shows the estimated impact of a three-day sales tax holiday on each fund.

Estimated Impact of a Sales Tax Holiday for Clothing and School Supplies (in millions)		
Fund	FY 2016	FY 2017
General Fund	(\$10.477)	(\$10.967)
Motor Vehicle Highway Acct.	(\$0.106)	(\$0.111)
Commuter Rail Service Fund	(\$0.013)	(\$0.014)
Industrial Rail Service Fund	(\$0.003)	(\$0.003)
Total	(\$10.599)	(\$11.095)

Additional Information - August is a peak sales month for “back-to-school” items including school supplies and clothing. This is driven largely by students and parents of students of primary and secondary schools shopping for items they need for the upcoming academic year. August is also the month when many college students purchase supplies and clothing. The bill makes many of those items sales tax-exempt for three days in August.

The average family spends approximately \$100 on school supplies and \$355 on clothing and footwear for K-12 students. According to the U.S. Census Bureau, there are over 832,000 households with children under 18 in Indiana. College students spend an average of about \$75 on school supplies and \$215 on clothing and footwear in preparation for the fall semester. In 2013, about 294,000 full-time students were enrolled at institutions of higher education in Indiana.

Research on the impact of sales tax holidays on purchasing patterns is the basis for the estimates in the table above. It is assumed that 37% of school supply and clothing sales that occur in August will be shifted to the days of the Sales Tax holiday.

Explanation of Local Expenditures:

Explanation of Local Revenues: Local revenues could decrease to the extent that a local unit receives Sales Tax revenue through distributions from the Motor Vehicle Highway Account, Commuter Rail Service Fund, or Industrial Rail Service Fund. However, the impact on an individual unit is likely to be small.

State Agencies Affected: DOR.

Local Agencies Affected:

Information Sources: National Retail Federation, “Demand for Clothing, Supplies, Electronics Drives School/College Spending Up”, July 17, 2014. U.S. Census Bureau, 2010 Demographic Profile Data. National Center for Education Statistics, Integrated Postsecondary Education Data System. Adam Cole, “The Fiscal Impact of Sales Tax Holidays”, May 2009. Indiana State Budget Agency, FY 2015 Report of Monthly General Fund Revenue Collections.

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